

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Pakistan

Exporter Guide

Annual 2018

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Report Highlights:

Pakistan is a growing market for imported food products since the retail sector is growing. Rising incomes, urbanization, and an extremely young populace are combining to shift traditional consumption patterns away from bulk and raw foods towards packaged and processed foods, including ready-to-eat meals and frozen foods. Pakistan has become one of the top 20 markets for U.S. food and beverages products, and the United States is the second leading agricultural supplier in the world. Total U.S. exports of agricultural products to Pakistan are forecast to exceed \$1.5 billion during calendar year 2018. The top U.S. agricultural exports are soybeans, cotton, tree nuts, pulses, powdered milk, corn seeds, and wood products. This report provides U.S. food and agriculture exporters with background information and suggestions for entering the Pakistan market.

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MARKET FACT SHEET: PAKISTAN

Executive Summary:

Pakistan is now one of the top 20 markets for U.S. food and agricultural products. The value of agricultural trade between the United States and Pakistan in 2018 totaled \$1.7 billion. Agricultural exports from the United States to Pakistan totaled \$1.6 billion led by soybeans (\$689 million), cotton (\$615 million), consumer oriented products (\$124 million), wood products (\$56 million), planting seeds (\$37 million), pulses (\$14 million), live animals (\$4 million), and while agricultural exports from Pakistan to the United States totaled \$133 million, led by exports of rice (\$31 million), consumer oriented products (\$45 million), sugar/sweeteners (\$30 million), spices (\$19 million), processed fruit and vegetables (\$9 million) and seafood products (\$7 million).

The U.S. companies have already an advantage as U.S. brands have significant recognition in the market.

Imports of U.S. Food & Ag Products to Pakistan



Food Retail Industry

The food retail industry in Pakistan grew substantially in ten years and reached \$1.5 billion in 2018. The well-known European supermarkets, Metro, Carrefour, and Tesco, in collaboration with Pakistani groups, opened several self-serviced outlets in Karachi, Lahore, Faisalabad, and Islamabad. These hypermarkets are typically 50,000 to 100,000 square feet to take advantage of scale and create a unique one-stop shopping experience in Pakistan that differentiates them from smaller supermarkets and traditional small retailers. The new elected government in Pakistan is welcoming foreign direct investments and has developed a one window operation to facilitate foreign direct investment in Pakistan. The U.S. companies should take advantage of this conducive working environment and begin exploring opportunities to identify relevant partners.

Quick Facts 2018

Imports of Consumer-Oriented Ag. Products US\$1.9 billion

List of Top 10 Growth of Agricultural Products in Pakistan

- | | |
|-------------------|-------------------------|
| 1. Cotton | 6. Tree nuts |
| 2. Soybeans | 7. Processed food |
| 3. Wood products | 8. Processed vegetables |
| 4. Planting seeds | 9. Live animals |
| 5. Soybean meal | 10. Dairy products |

Top 5 Retailers

- Metro
- Carrefour
- Imtiaz
- Naheed
- Alfatah

GDP/Population

Population: 207 millions
GDP: \$319 billion
GDP Per Capita: \$1,541
Economic Growth Rate estimate: 5.8%

Sources: State bank of Pakistan

Strengths/Weaknesses/Opportunities/Threats

Strengths	Weaknesses
Good reputation of certain U.S. products like soybeans, cotton, pulses, dairy products, dried nuts, and wood products.	Retailers rarely import U.S. products directly into Pakistan, they prefer purchases from commercial traders mainly located in Karachi and Lahore.
Opportunities	Threats
Certain commodities, nuts, line animals, wood and lumber products are not available domestically.	Adaptation of most stringent phytosanitary regulations by Pakistan.

Sources: State Bank of Pakistan, Euromonitor, Global Trade Atlas

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SECTION 1: MARKET OVERVIEW

Economic Situation and Trade:

Pakistan is the sixth most populous nation in the world with a population of over 200 million in 2018. Pakistan's economic growth increased from 5.4 percent in 2017 to 5.8 percent in 2018. Per capita income increased from \$1,629 in 2017 to \$1,641 in 2018. Foreign Direct Investment (FDI) during July-March 2018 reached \$2 billion. The major FDI inflows are from China, Malaysia, United Kingdom, United States, United Arab Emirates and Europe.

Agriculture is a key sector of the economy, accounting for 18.9 percent of GDP and 42.3 percent of employment; the sector has many linkages with other sectors of the economy and plays a significant role in socio-economic development. During fiscal year (July/June) 2018, the agriculture sector recorded a growth of 3.8 percent. Pakistan is a significant importer of key agricultural products such as cotton, vegetable oil, pulses, tea and dairy products. Globally, Pakistan imported \$5.8 billion in food and agricultural products in 2018.

There are at least 30 U.S. firms in Pakistan's food and agriculture sector through investment, franchising, or distributorships. The major seed and chemical companies are Monsanto, DuPont/Pioneer and FMC. Massey Ferguson assembles tractors and sells small-scale farm equipment. The companies PepsiCo, Coca Cola and Kraft have invested in food processing. Valmont sells irrigation equipment. Dairy genetics companies are tapping into the growing demand for bovine semen. Cargill and the U.S. arm of Louis Dreyfus maintain commodity-trading operations. About 15 U.S. restaurant franchises operate in Pakistan, helping to provide the impetus for the development of safe and modern food supply chains. Pakistan is now the second largest importer of U.S. wood products in the region because of a residential construction boom.

Dubai is an important transit point for foreign food products entering Pakistan. Companies in Dubai can consolidate and ship products in approximately four days. A number of U.S. food items are imported this way, allowing importers to better control inventory and reduce the need for expensive storage costs. Pakistan's cold chain system is limited, complicating the import and movement of produce, meat, fish, and other fresh, frozen or refrigerated products throughout the country.

Food Purchasing Behavior:

A small number of international and domestic grocery retail outlets are starting to change the food retail sector in Pakistan, but Pakistanis still buy much of their food in traditional shops and markets. In major cities, middle and high-income consumers are slowly diversifying their purchasing away from bulk and raw foods towards packaged and processed foods, including ready-to-eat meals and frozen foods. Supporting this trend is an increase in women working full-time and higher levels of disposable income. Food consumption patterns have not changed in the rural areas and are based on wheat and grain products and a variety of meat products.

A typical Pakistani household makes regular purchases of staple foods (i.e., wheat flour, pulses, edible oils, fruits, vegetables, milk, and meat) from neighborhood stores due to convenience,

perceived freshness, and limited storage space at home. Young Pakistani professionals purchase food from modern retail stores due to the greater variety of products, access to co-located stores, and access to restaurant and prepared foods. For urban dwellers with sufficient incomes, one-stop grocery shopping is catching-on as a family outing. Affluent Pakistani families are attracted to modern retail stores due to affordability, strategic locations, variety, and access to imported processed foods. The demand for specialty and high value foods such as dates, cereals, beverages, chocolates, almonds, cakes, fruits and fruit juices reaches its peak during the Islamic festive season, especially at Eid and Ramadan. These festivals revolve around the year depending on the lunar calendar.

Consumer Demographics Trends:

Pakistan is the sixth most populous nation in the world with a population of 207 million in 2018. The male population is 106 million (51 percent), whereas female population is 101 million (49 percent). Pakistan is also one of the youngest countries in the world with 19 million in the 15-19 years old age group. Pakistan's middle class is estimated at over 60 million, but incomes deemed middle class are significantly lower than in the United States. Consumers from the Pakistani middle class broadly support both domestically produced and imported goods, including imported foods. The upper middle-income class is estimated at 17 million, with relatively high per capita income that favors consumer spending.

Advantages and Challenges for U.S. Suppliers

Advantages	Challenges
Pakistan has a large young population that is more focused on consumer items	Shipments from the United States take longer
Expatriate community looks for specialty U.S. food products and dine in Western-style restaurants	U.S. suppliers have not been flexible in terms of specialty products of smaller quantities required by the industry
Consumers are seeking quality products from both domestic and international suppliers	Competition from other countries like the United Kingdom, Australia, New Zealand, South Africa, and Europe
Gradual transformation of the modern retailing in urban centers	Imported food products are subject to high tariffs which range from 25 – 65 percent and a high duty structure for all value added food ingredients
U.S. products are popular for quality, taste, and wholesomeness	Proximity to other countries provide competitors a comparative advantage
Eating out culture is becoming popular at upper and middle income levels	Inability of U.S. exporters to meet Pakistani importers' requirements (mixed shipments)
Urban population creates demand and welcomes new products as they are open to try novel tastes	Locally produced snack foods, salad dressings, sauces, jams and other processed foods are relatively inexpensive
International retailers that market a wide range of imported products in the sector have great influence on purchasing patterns	Local importers prefer to initiate business deals with small orders which is usually not welcomed by many U.S. exporters
Franchising has been introduced and the retail food sector is transitioning to a modern structure with a growing number of Western-style fast food restaurant chains, bakeries, and coffee shops	Market penetration for imported products is mostly concentrated in major cities

SECTION II: EXPORTER BUSINESS TIPS

General Consumer Tastes and Preferences:

The majority of consumers prefer fresh foodstuffs that are readily available in their neighborhood at affordable prices. Healthy eating is becoming more popular among educated consumers and is featured in newspapers, magazines, and television. Fresh foods, fruit juices, fruit concentrated-based beverages, organic foods, sugar-free confectionary, packaged food with higher fiber content, dairy products, and vitamin and calcium fortified packaged foods and beverages are all gaining acceptance among middle and upper-income consumers. Pakistan is 96 percent Muslim. Therefore, pork is only consumed by a small Christian community. Products with meat ingredients must be certified Halal to ensure that the meat is sourced from livestock slaughtered in accordance with the tenets of Islam. Food and ingredients destined for the food service sector must also be certified Halal where appropriate. The import and sale of alcohol is also prohibited for religious reasons.

Traditional and modern snack foods, such as confectionaries, pastries, cakes, biscuits, ice cream, or sweet and savory snacks are very popular among Pakistanis. Frozen foods and instant noodles, which are easy to prepare for children, are popular among working mothers. Local flavors are preferred and local food manufacturers are exploring opportunities to produce new products using a combination of local and imported flavors. The rise of the urban middle class has increased the acceptance of packaged, convenience, and ready-to-eat food products. Pakistanis are more willing to try new foods while eating out and prefer traditional fare at home. Chinese, Italian, Thai, Moroccan, and Lebanese foods are among the fastest growing new cuisines in Pakistan.

Finding a Business Partner:

If an exporter is interested in the Pakistani market, the first step is to locate a reliable importer and distributor. A group of professional distributors who are keen to manage brands is developing in Pakistan and many are interested in expanding their product lines. These importers typically seek exclusive rights to market a particular product or brand. The food import business is relatively new and exporters should meet potential importers and research their business profile carefully through banks and trade associations.

Restaurant franchises are one way of introducing new products. An increasing number of restaurant chains are opening in Pakistan, especially in Karachi and Lahore. These include fast food, casual dining, and cafes. While most of these companies' source food ingredients produced in Pakistan, some require specialized ingredients or imports of certain items that are not readily available. Exporters should check with importers to see if they are approved suppliers for franchises. Additionally, Pakistan's hotel sector feature niche high-value food products not readily found in Pakistan. Global hotel chains and excellent local chains operate here. Fresh fruits and vegetables are readily available in Pakistan, but certain high quality fruits and vegetables (e.g., cherries, plums, broccoli, and lettuce), meat (e.g., steak), and fish products (e.g., shrimp and crab) can be difficult to source locally.

A visit to Pakistan to gain a first-hand feel of the Pakistani market, preferably coinciding with a major food shows such as DAWN Sarsabz Pakistan Agri Expo, Expo Pakistan, Food Technology Asia, and IFTECH Pakistan (see Appendix B for more details), offers an excellent opportunity to learn more about the Pakistani market and to meet prospective importers. Increasing numbers of Pakistani importers are visiting international food shows such as Gulfood, ANUGA, and SIAL.

A Pakistani importer should ensure that:

- Importation is in accordance with regulations and the item(s) are not on the negative list.
- The terms and conditions of importation are specified in the letter of credit.
- Bulk vegetable oils are the only food products subject to random testing to ensure fitness for human consumption at time of arrival.
- Imported food products, including ingredients, must have at least 50 percent of their original shelf life remaining at the time of importation - calculated from the date of filing the "Import General Manifest" (IGM) in accordance with the Customs Act of 1969.
- Possess a compulsory letter of credit or register the contract with a bank in order to import goods into Pakistan.

Consider the following before selecting a distributor:

- Do they have a national or regional distribution network?
- How is their distribution network structured?
- Who are their customers? Do they sell to retailers, hotels or restaurants?
- What are their capabilities? Do they have experience handling perishable or value added foods?
- Are they interested in marketing your products? If so, how will marketing costs be handled?
- Are they paying listing fees to retailers?
- Are they managing similar brands or products from other suppliers?
- What are the margins and costs charged by the distributor?

Ensuring payment is a critical consideration when establishing a relationship with an importer. Until a working relationship is established, exporters may wish to consider requiring an irrevocable letter of credit. Some Pakistani importers are accustomed to operating without credit and may be willing to pay cash prior to shipment. While FAS Islamabad receives few inquiries concerning delinquent Pakistani importers, our office cannot mediate contractual disputes or serve as a collection agent when differences over payment arise. For firms that qualify, the Export Import Bank of the United States provides exporter insurance. USDA's Export Credit Guarantee Program (GSM-102) is not operational in Pakistan.

SECTION III: IMPORT FOOD STANDARDS, REGULATIONS AND IMPORT PROCEDURES

Documents Required by the Country Authority for Imported Food:

1. A National Tax Number (NTN) certificate issued by the Federal Board of Revenue (FBR) on filing of application form accompanied with one attested copy of National Identity Card of the importer.
2. A Pakistani bank account.
3. A Sales Tax Registration. For registration, an importer must send Form ST-1 to their local sales tax registration office via post. The local registration office transmits applications to the Central Registration Office in FBR Islamabad. Pakistan eliminated previous requirements of furnishing supporting documents now that the Central Registration has online access to the NTN database. On verification, Central Registration generates and issues a registration certificate to the applicant directly.
4. A membership certificate of Chamber of Commerce and Industries or any relevant trade association of Pakistan.

Labeling Requirements :

1. Imported food products, including ingredients, must have at least 50 percent of their original shelf life remaining at the time of importation - calculated from the date of filing the "Import General Manifest" (IGM) in accordance with the Customs Act of 1969. Labels in English or Urdu languages are required.
2. Packages or containers must also indicate:
 - a. The date of manufacture and date of expiration,
 - b. That the contents are free from pork and pork products,
 - c. That the contents are fit for human consumption and that any animal product was obtained from an animal slaughtered according to 'Halal' requirements,
 - d. That import of edible oils is on the basis of landed weight and landed quality.
 - e. That packing may not contain any word or inscription of a religious connotation or any obscene picture that may offend the religious feeling of any sect, class, or group in Pakistan.

SECTION IV: MARKET SECTOR STRUCTURE AND TRENDS

Retail Sector Key to High Value Imports:

The grocery retail sector in Pakistan grew 23 percent in ten years and reached nearly \$1.5 billion in 2018. The well-known European supermarkets, Metro, Carrefour, and Tesco, in collaboration with Pakistani groups, opened several self-service outlets in Karachi, Lahore, Faisalabad, and Islamabad. These hypermarkets are typically 50,000 to 100,000 square feet to take advantage of scale and create a unique one-stop shopping experience in Pakistan that differentiates them from smaller supermarkets and traditional small retailers. This influx of foreign retailers is supported by the ease of doing business as there is no restriction on foreign companies owning and operating retail outlets in Pakistan. The U.S. retailer groups were concerned about Pakistan's security situation, but the situation has improved the past two years so U.S. companies can engage with local players. The new government elected in 2018 in Pakistan welcomes foreign direct investments and has developed a one-window operation to facilitate foreign direct

investment in Pakistan. The U.S. companies should take advantage of this conducive working environment and begin exploring opportunities to identify relevant partners. The U.S. companies already have an advantage as U.S. brands have significant recognition in the market.

Pakistani consumers have been slow to embrace online shopping. The relatively high cost of computers, low internet penetration rates, payment issues, and the need for a better delivery options have limited growth. Recently, fueled by increased demand among younger urban consumers and the prevalence of mobile phones internet retail sales have increased significantly, albeit form a very small base. Thus far, not online retailers have developed food or grocery websites.

Food Service Sector Growth and Trends:

Fast food is a growing industry in Pakistan that is capitalizing on changing lifestyles, a growing young population, expansion of urban malls, modern retailing, and an increase in the number of working women. The U.S. companies dominate the franchise market in Pakistan. Fast food chains are focusing on specialized products to attract consumers in the 15-49 age range. Western-style fast food outlets purchase a limited volume of imported foods and food ingredients such as frozen french fries, cheese, dressings, sauces, whipping cream, bakery ingredients, mixes, and condiments.

The same potential exists for high-end coffee shops as well, as specialty and flavored coffees are spreading, and this trend is being promoted both by international coffee chains and their Pakistani competitors. Coffee shops tend to use various imported coffee ingredients including creamer, honey, flavorings, and roasted coffee. During the last few years, a high-end bakery concept has become popular in the urban areas of Pakistan. These bakeries tend to use imported ingredients including bakery yeast, dough, flavors, icing, and cocoa in their specialized products to improve quality and taste. The small frozen fruit and vegetable sector is growing to meet the demands of the restaurant sector. The growth in fruit and vegetable processing is estimated at 11 percent in 2015 in processed frozen fruit and vegetables.

Food Processing:

An estimated 25 percent of Pakistan's agricultural production is processed in some way and accounts for 16 percent of employment in the manufacturing sector. In addition, the food processing sector contributes 17% to the manufacturing GDP of Pakistan and is comprised principally of rice and wheat milling and sugar cane processing. There are more than 1,000 large-scale food processing enterprises in the country and up to 75% of rural-based food manufacturers are in the so-called informal sector. The almost year-round availability of fresh products across the country, combined with consumers' preference for fresh products and freshly cooked foods, has tempered the demand for processed food products in the past.

The consumption of unprocessed meat and seafood remains quite popular among Pakistani consumers because of their perceived freshness and safety. However, led by poultry, there is a small but growing sector focusing on processed meat and seafood. Opportunities for U.S. brands exist to introduce products in Pakistan. Supermarkets now allow companies to place branded freezers in their outlets, with some going so far as to allow company salesmen to stand next to these freezer and approach shoppers to discuss the benefits of consuming processed meat and seafood.

Food processors are slowly introducing new products and traditional recipes using improved technology, innovative packaging, and aggressive marketing. For ingredients that are not available in Pakistan, processors turn to imports and typically source through importers specializing in food ingredients. Food ingredients sourced by Pakistani food processing companies from the United States include dried fruits and nuts, essential oils, protein isolates, starch, vegetable saps, thickeners, lactose, sugar and sugar syrups, mayonnaise, mixed seasonings, sauces and preparations, yeast, baking powders, sweeteners and other preparations for beverages, vinegar, oleoresins, and gelatin and gelatin derivatives.

The dairy sector is expanding rapidly with the availability of processed products such as cheese, butter, yoghurt, ice cream, and ghee. Large firms produce about 80 percent of the processed dairy products. Pakistanis traditionally consume a soft cheese known as paneer, but they are gaining exposure to western-style cheeses through the fast food industry.

SECTION V: AGRICULTURAL and FOOD IMPORTS

Best Product Prospects

Products Present in the Market with Good Sales Potential

Description	Total Imports CY 2017 - Value (USD millions)	Custom Duty	Key Constraints	Market Factors
Soybeans & Soybean Meals	887	3%	Price competition with Brazil and Argentina	Total dependence on imports.
Cotton	703	16%	Price competitiveness with India, Brazil, and Egypt etc.	Local production is inadequate and long staple fiber is required for export oriented products. Cotton contamination is a big local issue.
Pulses	473	3%	Price competitiveness and freight advantage for countries like Myanmar and India	Local production is inadequate and more than 30% of total consumption is met through imports.
Tree Nuts	314	up to 20%	Competition from Afghanistan and Iran	Growing seasonal demand, health consciousness, and value additions.
Dairy Products	296	up to 22%	Competition from foreign suppliers like EU, Turkey, New Zealand, and Gulf states	Increasing popularity of imported brands and shortage of quality domestic products. Demand is growing for powdered milk for processing.
Forestry Products	201	up to 20%	Competition from Canada, Europe, Burma, Malaysia, and Russia	Total dependence on imports.

Breakfast Cereals	148	up to 20%	Competition from EU, Iran, Malaysia, Philippines, Thailand	Increasing awareness in health conscious consumers.
Processed Fruits and Vegetables	137	up to 16%	Competition from countries like China, India, Afghanistan, and Thailand etc.	Growing demand for fruits in domestic offseason and increasing demand for processed vegetables.
Planting Seeds	123	3%	Hybrid seed for corns and vegetables is not available	High demand of hybrid seed to achieve high local production.
Chocolate & Cocoa Products	62	up to 20%	Competition from domestic and other foreign suppliers	Consumer preference for imported products and brands.
Snack Foods	35	up to 20%	Competition from Iran, China, New Zealand, Turkey, EU and domestic market	Preference for imported brands and shortage of quality domestic product.
Fruit and Vegetable Juices	32	up to 20%	Competition from domestic and other foreign suppliers like Iran, Thailand, Indonesia, China, Malaysia	Increasing popularity of imported brands.
Sugars and Sweeteners	26	up to 20%	Competition from domestic and other foreign suppliers like India, Brazil, China, Malaysia and EU	Consumer preference for imported products/ brands.

VI: POST CONTACTS AND FURTHER INFORMATION

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